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BUDGETING AND ORGANIZATION;
THEIR INTERPLAY IN
THE NAVY DEPARTMENT

STEPHEN J. RIORDAN, JR.

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THE GEORGE WASHINGTON UNIVERSITY
NAVY GRADUATE COMPTROLLERSHIP PROGRAM

BUDGETING AND ORGANIZATION
THEIR INTERPLAY IN THE NAVY DEPARTMENT

by

Stephen J. Riordan, Jr.
"
Commander, United States Navy

Prepared for
Dr. A. Rex Johnson

May 1958

I have been thinking of writing you for some time but have been so busy that I could not find time. I hope you are well and happy. I am well at present.

I have been thinking of writing you for some time but have been so busy that I could not find time. I hope you are well and happy. I am well at present.

I have been thinking of writing you for some time but have been so busy that I could not find time. I hope you are well and happy. I am well at present.

Yours truly,

John Doe

123 Main Street

City, State, Zip

Phone Number

I hope you are well and happy. I am well at present.

PREFACE

This paper has been written under the direction of Dr. A. Rex Johnson, George Washington University, to fulfill requirements in the Navy Graduate Comptrollership Course.

In this discussion of the interplay of budgeting and organization as traced in the Navy Department, I have made certain observations and conclusions which are purely my own. The views I have expressed are not necessarily those of authors I have read or persons with whom I have discussed various matters contained herein.

I wish to acknowledge the valuable assistance afforded me, through the media of discussion and opening of their files to me, by the following individuals:

Mr. J. D. Alexander

Mr. J. A. McCartney

Mr. R. J. Chastka

Mr. J. A. Lobi

Mr. C. T. Newman

--all from the Office of the Comptroller of the Navy.

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INTRODUCTION

The first essential of successful budgeting is a sound organization.¹ Budgets by their very nature go to the heart of administration.² Subscribing to this principle, I will consider herein the relationships between budgeting and organization in the Navy Department.

Since the turn of the century and particularly in the past decade, great emphasis has been placed upon financial management and budgeting, with their promise of economy and efficiency in the Federal Government. Congress has enacted many statutes and successive administrations have issued many directives which have had profound effects on the way of doing business within the Governmental agencies. How has the Navy Department adjusted to these changes? Is there current need for reorganization in this Department to cope with the tide of budgetary change? These are the questions which have prompted this discussion.

Some individuals will argue that budgeting should follow organization and not vice versa but I will dismiss this

¹F. C. Kurtz, lecture to Navy Graduate Comptrollership Class, George Washington University, Washington, D. C. February 26, 1958.

²W. H. Newman, Business Policies and Management (Cincinnati: Southwestern Publishing Co., 1949), p. 683.

argument at the outset by placing it in the same category as the cliché: "Which came first, the hen or the egg?" The central issue is that budgeting requirements and organizational structure must be compatible. Congress has prescribed that budgetary structure is to follow certain definitive patterns and support legislated accounting practices. It therefore follows that where organization is incompatible with budgeting practice the former must be changed or recourse must be had to show Congress the error of its ways.

The foundation and development of the current financial practices as they have affected the military and particularly the Navy Department is the subject of Chapter I. Chapter II describes the Army and Navy organizational framework within which financial management has been accommodated. The Army organization is presented because it is a contrasting approach to that which the Navy has taken in adjusting to the same changes in business management. This contrast is of particular importance since the unification of the Armed Forces with the accompanying desire of the Department of Defense to control all three Military Departments through uniform patterns.

Departing from the general discussion of the chapters mentioned above, Chapter III deals with the manner in which the Navy has handled a service-wide appropriation which is inimical to its bureau responsibility pattern. The steps in the development of this appropriation are also traced. Chapter IV also deals with a service-wide appropriation which higher authorities have been pressing the Navy to adopt.

In Chapter V is presented a summary of the highlights in budgeting developments and organizational controls associated therewith. Although certain conclusions are presented in this final chapter, I do not propose to raise, or much less answer, all the questions which arise in connection with the many facets of this problem in so vast an organization as the Navy. I can only hope to stimulate the reader to give serious thought to the major problem areas.

CHAPTER I

DEVELOPMENT OF THE BUDGETARY PHILOSOPHY

The Constitution states that no money shall be drawn from the Treasury but in consequence of appropriations made by law.³ Originally Congress fulfilled this requirement by voting a lump sum for the Army, there being no Navy Department at that time. But this happy state of flexibility in military funding lasted only until 1794, when Congress began appropriating money by object of expenditure. The issue then became the degree of specification to which Congress should resort in appropriating funds. Alexander Hamilton expressed this very aptly in one of his Lucius Cassius letters:

. . . in providing for transportation of an army, oats and hay are each susceptible of a definition and an estimate and a precise sum may be appropriated for each separately. . . . If the appropriations be distinct and the officer who is to make the provision be not at liberty to divert the fund from one of these objects to the other. . . . The horses of the Army may in such a case starve and its movement be arrested.⁴

This degree of specification varied with the mood of Congress and the ire of Congressmen at the military for over-obligating funds. Congress jealously guarded its control of

³Constitution of the United States, Article 1, Section IX.

⁴Arthur Smithies, The Budgetary Process in the United States (New York: McGraw Hill Book Co., 1951), p. 52.

THE HISTORY OF THE UNITED STATES

The first part of the book is devoted to the history of the United States from the discovery of the continent to the establishment of the first colonies. The second part is devoted to the history of the United States from the establishment of the first colonies to the present time. The third part is devoted to the history of the United States from the present time to the future.

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the purse strings and paid little heed to any Presidential responsibility in funding matters. With the growth in the Federal Government new agencies were created by Congress and funds were provided by this body to implement the work of these agencies. The Navy Department was provided with its bureaus and the War Department with its technical services through this route. Until recently these agency heads went directly to the Congress for funds they required. These funds were justified on the basis of the object to be bought (personnel services, transportation, etc.) and were made available on this basis directly to the agency.

About the beginning of the twentieth century the United States became a "billion dollar country", that is, the aggregate of appropriations began to exceed a billion dollars annually. With this turn of events came a realization that responsibility and control must be introduced into Federal spending. Budgeting could no longer be considered solely a means to appropriations but in addition the element of control must be introduced. The first important action instituted toward solving problems associated with Federal budgeting was the appointment of the Commission on Economy and Efficiency by President Taft in 1910. In 1912 this Commission reported on the need for a national budget and a uniform accounting and budgeting system for the Federal Government. The Commission held that a sense of proportion in the national program could come only from those who must assume responsibility for

The first thing I noticed when I stepped out of the car was the smell of the sea. It was a salty, fresh scent that I had never experienced before. The sun was shining brightly, and the water was a deep, vibrant blue. I took a deep breath and felt a sense of peace wash over me. The beach was wide and sandy, with a few people scattered in the distance. I walked towards the water, feeling the sand between my toes. The waves were gentle and rhythmic, crashing against the shore. I stood still, watching the water stretch out to the horizon. The sky was a clear, pale blue, with a few wispy clouds. I felt a sense of freedom and joy, knowing that I was exactly where I needed to be. The sound of the waves and the smell of the sea were all I needed to feel at home.

the administration as a whole.⁵ President Taft transmitted the recommendations of his commission to Congress but implementing action was not taken. The Democrats were in power in Congress and would not consider increasing the executive powers of a Republican president. The attention to economy and efficiency lay dormant while the nation was preoccupied with the events of World War I.

The United States emerged from the war with considerably increased spending and, what was considered at that time, a tremendous public debt. Attention again was turned to financial management of the Government, culminating in the enactment of the "Budget and Accounting Act of 1921". This act provided for the executive budget which was to be consolidated into a single document and presented by the President to Congress. In financial matters the secretaries of departments and the agency heads became agents of the President rather than agents of the Congress. The departments were required to designate budget officers to consolidate department budgets. The first budget officer in the Navy Department was the Chief of Naval Operations. Subsequently the office was filled by a line rear admiral who reported directly to the Secretary. In 1941 this officer was designated Director of Budget and Reports.⁶ Thus the Navy met the requirements of the executive budget, but

⁵Wm. Howard Taft, "The Need for a National Budget," Budgeting: An Instrument of Planning (Seckler-Hudson, Unit No. 1), p. 80.

⁶Frederick C. Mosher, Program Budgeting: Theory and Practice (Public Administration Service, 1924), p. 55.

budgeting and appropriations were still based on funding for agencies and objects of expenditure. The Budget and Accounting Act (1) created the Bureau of the Budget to assist the President in his new budgetary responsibilities, and (2) the General Accounting Office to enable Congress to keep a check on Federal spending through the audit function vested in this agency.

Between the passage of this act and the post World War II era the trend toward centralization in executive budgetary responsibility continued. By the Reorganization Act of 1939, the Bureau of the Budget was removed from the Treasury Department and placed in the new Executive Office of the President created by this act. Government corporations were also brought under closer executive supervision by the Corporation Control Act of 1945. However, aside from complying with executive changes in budgetary procedures and methods no budgetary action was taken which was of singular importance to the military.

At the close of World War II the nation found itself again heavily in debt and committed to huge annual expenditures. An inflationary influence on government spending was the emergence of the United States as the leader of the "free world" in its struggle to stave off the ambition of Russian Communism for world dominance. As part of the "cold war" strategy the United States began a program of aid, both military and economic, to its allies and decided to keep a strong defensive force of its own. Over half of the Federal budget was now being devoted to security. Hence, with concern returning

The first part of the book is devoted to a general discussion of the principles of the theory of the function of the mind. The second part is devoted to a detailed examination of the various theories of the mind, and the third part is devoted to a discussion of the various theories of the mind.

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to economy and efficiency the focal point became the military departments. Emphasis was first directed toward organization. It was contended that with wars being fought on a global pattern the areas of missions and interests of the military forces were overlapping. This engendered wasteful competition and duplication of effort in the military. The arguments ranged from the status quo to outright merger of the Armed Forces. The result was the passage of the "National Security Act of 1947".

This act provided for security planning on the highest level through the National Security Council. The Air Force was given autonomy and the three Military Departments, Army, Navy, and Air Force, were constituted as the National Military Establishment (NME), presided over by the Secretary of Defense who was given cabinet status along with the Military Secretaries. Provision was made for a continuation of the Joint Chiefs of Staff which had operated so well during the war. This body was legally constituted as comprising the three military service chiefs who were provided a small joint staff. The principal duty of the Secretary of Defense and the boards constituted in the NME was to "coordinate" the efforts of the military services. The major problem experienced with this form of organization was that the powers of the Secretary were rather vague and circumspect. He could neither inspire nor force agreement among service elements; nor did he have the staff necessary to carry out the coordination function. The struggles of this period are vividly described in the Forrestal

Diaries,⁷ which were published shortly after the tragic death of the first Secretary of Defense, James V. Forrestal.

Although the National Security Act of 1947 had little to say on financial matters, the major squabbles associated with the NME were the result of the service failures to resolve military budget requests within ceilings set by the President.

The next step was to come with the enactment of the "National Security Act Amendments of 1949". Prior to enactment of this legislation, in addition to the evidence of the organizational unworkability of the 1947 Act, the Congress had before it the reports of the First Hoover Commission. The report of this group on budgeting and accounting had the following first recommendation:

We recommend that the whole budgetary concept of the Federal Government should be refashioned by the adoption of a budget based upon functions, activities and projects: this we designate as a "performance budget".⁸

The term "performance (or program) budget", with the prestige of the Hoover Commission behind it, took on an almost magic appeal. It was also natural at this time that in considering a more efficient organization of the NME, the Congress should consider its financial management as well. The National Security Act Amendments, therefore, called for reform in both

⁷ James V. Forrestal, Forrestal Diaries (Millis, Editor, Viking Press, 1951).

⁸ The Commission on Organization of the Executive Branch of the Government (First Hoover Commission) report on Budgeting and Accounting, Feb. 15, 1949.

organization and financial management. The first part of the Act amended the 1947 act in such a way as to place the Secretary of Defense in line authority over the Military Establishment, which was designated the Department of Defense vice the National Military Establishment. The Military Secretaries were designated as such and removed from the cabinet status accorded in the National Security Act of 1947. The various boards and committees of the Department of Defense were made directly responsible to the Secretary of Defense. This official was also given a larger staff to assist him. The Joint Chiefs of Staff was also given a Chairman to preside over meetings, fix agendas, and act as principal military advisor to the Secretary of Defense and the President.

The second part of this Act added Title IV, for the "Promotion of economy and efficiency through establishment of uniform budgetary and fiscal procedures and organizations."

This Title provided for a Comptroller of the Department of Defense whose duty was to supervise the Department in all matters comprising the fiscal functions. The term of this Act is "supervise" which connotes management responsibility above mere "coordination". Comptroller organizations were provided for each of the military departments. The military department comptrollers were given responsibility for the fiscal functions of their respective departments under the supervision afforded by the Controller of the Department of Defense. Title IV then specified "performance budgeting" for

the Department of Defense in the following terms:

The Budget estimates of the Department of Defense shall be prepared, presented and justified, where practicable, and authorized programs shall be administered in such form and manner as the Secretary of Defense, subject to the authority and direction of the President, may determine, so as to account for and report the cost of performance of readily identifiable functional programs and activities, with separation of operating and capital programs. So far as practicable, the budget estimates and authorized programs of the military departments shall be set forth in readily comparable form and shall follow a uniform pattern.⁹

After 160 years of budgeting by activity and object of expenditure the Department of Defense was to budget for the work to be done rather than the things to be acquired. Budgets of the military departments were also to be comparable and set forth in a uniform pattern. The trend toward uniformity and centralized control was thus continued. In addition the new philosophy of "the program" was interjected. Programs could and did often cut across organizational lines.

In compliance with this law the Navy Office of Budget and Reports became the Office of the Comptroller of the Navy. As a further step, Public Law 542, 83rd Congress provided for the Assistant Secretary of the Navy for Financial Management and his designation by the Secretary as Comptroller.¹⁰ His Deputy Comptroller is a line rear admiral. The Navy also recast its fiscal 1951 budget along program lines. However,

⁹81st Congress, 1st Session, PL 216, entitled, "National Security Act Amendments of 1949."

¹⁰83rd Congress, 2nd Session, PL 562, 1954.

this recasting followed the existing organization structure with "bureau" appropriations. In later years bureau appropriations were further refined to separate capital programs from those of a current operations nature. The 1951 program structure will be tabulated in the next chapter.

"The Budget and Accounting Procedures Act of 1950" extended performance budgeting to the rest of the government. It also established guide lines for the Joint Accounting Program which was headed by the General Accounting Office with the participation of the Treasury Department and the Bureau of the Budget. This program was instituted to guide the introduction and application of uniform accounting procedures in the Federal Government.

The most recent act to date in the development of federal budgeting is Public Law 863, passed in 1956 by the 84th Congress. This act calls for the development of cost-based budgets as the basis for requests for appropriations and the administration and operation of departments and their subordinate units. These cost-based budgets are to be facilitated by the adoption of accrual accounting by all governmental units as soon as practicable. The act amended the Budget and Accounting Procedures Act of 1950 to provide that heads of executive agencies, in consultation with the Director of the Bureau of the Budget, take action necessary to achieve as far as possible: "(1) consistency in accounting and budgeting classifications; (2) synchronization between accounting and

budget classifications and organizational structure, and (3) support of the budget justifications by information on performance and program costs by organizational units."¹¹

Through the years financing government has moved from irresponsible fragmentation to closer executive control and supervision. No longer does the independent bureau chief go to Congress for his funds and administer expenditure of these funds independently. His budget is no longer only a means to appropriations but must also serve as a tool of control. The Congress, with the support of the Executive, has expressed as its sense, that budgeting must be based on sound accounting procedures and the organizational structure must support both. The emphasis must be on things to be done and not on things to be bought. There must be uniformity between agencies and comparability where practicable. All these budgetary concepts have been introduced at an accelerating pace since the turn of the century.

¹¹84th Congress, 2nd Session, PL 863, 1956.

CHAPTER II

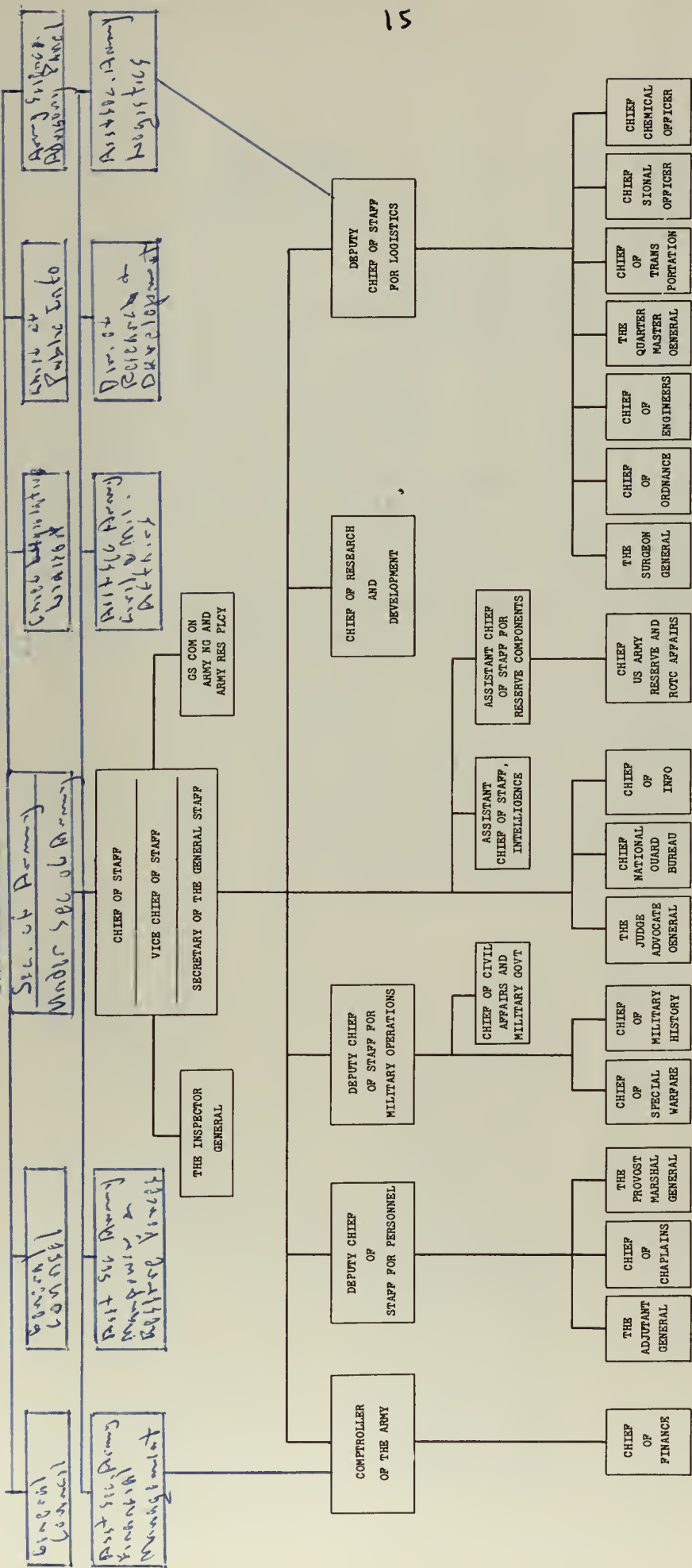
DEPARTMENTAL ORGANIZATION, ARMY AND NAVY

General

Figures II-1 and II-2 show diagrammatically the current organization of the Department of the Army and the Department of the Navy and should be studied in conjunction with the following discussion.

As was noted in the preceding chapter, the Navy recast its 1951 budget to conform with program budgeting. Table II-1 indicates the appropriation titles under the old form of object classification budget and the changes wrought by introduction of the new performance budget. The net result was a change from 43 appropriations to 19. The Army, however, went from 21 appropriation titles to 8 with the introduction of performance budgeting. The difference can be accounted for in the respective approaches of the Navy and Army to the requirements of performance budgeting as set forth in Public Law 216. The Navy adjusted its programs to fit its bureau system and to recognize bureau responsibility; the Army, through reorganization, centralized its budgeting at the headquarters level. The principal result of the separate approaches was that the Navy budget became as functional as its bureau organization while the Army budget reflected a decline in influence of the

ORGANIZATION OF THE ARMY STAFF*



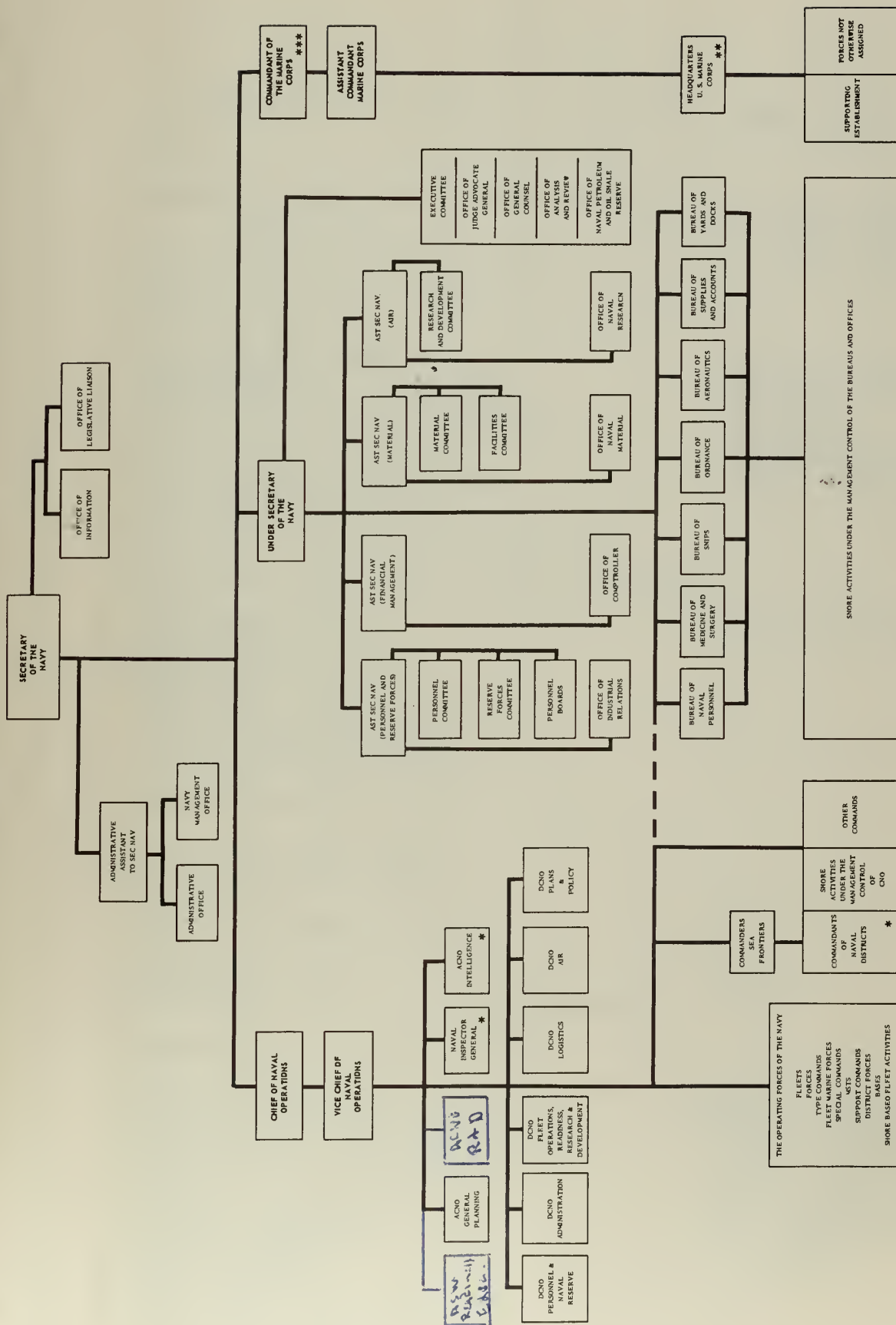
*THIS IS NOT AN OFFICIAL CHART

PREPARED BY:
MANAGEMENT OFFICE
OFFICE, CHIEF OF STAFF
26 JUNE 1957

11-23

Department of the Navy

15 a



* Additional direct responsibility to SECNAV
 ** The Chiefs of Bureaus and Offices, and Headquarters, U. S. Marine Corps are accountable directly to UNSECNAV for all matters assigned to Civilian Executive Assistance.
 *** The Chief of Naval Operations and the Chief of Naval Operations are accountable to CNO for the readiness and performance of the operating forces of the Navy, and, responsible to CNO in his capacity as naval executive for matters assigned by SECNAV.

Approved: *Wm. S. ...*
 Secretary of the Navy

Fig. II-2

TABLE II-1

APPROPRIATION TITLES FOR NAVY FISCAL 1951 BUDGET

OLD VS. NEW

OLD TITLE	NEW TITLE
Office of the Secretary:	
Miscellaneous Expenses	Operation and Conservation
Contingencies of the Navy	of Navy Petroleum
Operation and Conservation	Reserves
of Naval Petroleum Reserves	Exploration of Naval
Exploration of Naval	Petroleum Reserve No. 4
Petroleum Reserve No. 4	Service Wide Operations
Contingent Expenses	
Salaries, Office of the Secretary	
Office of the Chief of Naval Operations:	
Island Government	Island Government
Naval Observatory	
Hydrographic Office	
Salaries, Office of CNO	
Salaries, Office of Chief of	
Naval Communications	
Office of Judge Advocate General:	
Salaries, Office of	
Judge Advocate General	
Office of Naval Research:	
Research	Research
Salaries, Office of Naval research	
Bureau of Naval Personnel:	
Pay and Allowances	Military Personnel, Navy
Transportation and Recruiting	Military Personnel,
Training and Education	Naval Reserve
Welfare	Military Personnel,
Officer Candidate Training	Officer Candidates
General Expenses	Navy Personnel, General
Naval Reserve	Expenses
Naval Academy	
Naval Home	
Salaries, Bureau of	
Naval Personnel	

OLD TITLE	NEW TITLE
Bureau of Ships:	
Maintenance	Ships and Facilities
Salaries, Bureau of Ships	
Bureau of Ordnance:	
Ordnance and Ordnance Stores	Ordnance and Facilities
Salaries, Bureau of Ordnance	
Bureau of Supplies and Accounts:	
Subsistence	Service-Wide Supply and
Maintenance	Finance
Transportation of Things	
Fuel	
Salaries, Bureau of Supplies and	
Accounts	
Bureau of Medicine and Surgery:	
Medical Department	Medical Care
Salaries, Bureau of Medicine	
and Surgery	
Bureau of Yards and Docks:	
Maintenance	Civil Engineering
Salaries, Bureau of Yards	
and Docks	
Bureau of Aeronautics:	
Aviation	Aircraft and Facilities
Construction of Aircraft	Construction of Aircraft
Salaries, Bureau of Aeronautics	
Marine Corps:	
Pay, Marine Corps	Military Personnel,
General Expenses	Marine Corps
	Military Personnel,
	Marine Corps Reserve
Salaries, Marine Corps	Marine Corps Troops and
	Facilities

technical services. The Air Force, on the other hand, had no problem of legislated or traditional organization. When the Air Force was given separate status by the National Security Act of 1947, it was organized with central control vested in the headquarters staff. In this respect, and probably because of strong Army influence, the headquarters organization of these two services is quite similar. Budgeting and appropriation control is centralized in the General and Air Staffs.

The Army Organization

Writing concerning the results of the National Security Act Amendments of 1949, General W. B. Palmer, a former Vice Chief of Staff, stated, "Congress took control of money away from the bureaus and placed it in the hands of the Secretary of the Army. This was the most important change ever made in the administration of the Army with the sole exception of the General Staff law itself."¹²

This statement is true because of the manner in which the Army reorganized and by virtue of the subordinate position of the Chief of Staff to the Secretary of the Army. The General Staff concept provides for direct line authority from the Secretary of the Army through the Under Secretary to the Chief of Staff. The Chief of Staff is responsible for the administration of the Army. He carries out the administration of the Army through his deputies and assistants who answer directly to him. Appropriation administration is handled by the Deputy Chiefs of Staff with the coordination and technical guidance

¹²Gen. W. B. Palmer, "The General Staff, U. S. Army" (Armed Forces Management, October 1957), p. 10.

of the Comptroller of the Army, who has Deputy Chief of Staff status as the result of the last General Staff reorganization in 1956. The seven technical services which had enjoyed considerable autonomy and were responsible for handling their separate appropriations, are now under the Deputy Chief of Staff for Logistics.

With the exception of the Assistant Secretary of the Army (Financial Management), the Army civilian assistants do not exercise direct line authority. "The Comptroller of the Army is under the direction and supervision of, and is directly responsible to, the Assistant Secretary of the Army (Financial Management), by delegation of the Secretary of the Army. The Comptroller of the Army is concurrently responsible to the Chief of Staff."¹³

The unique position of the Assistant Secretary of the Army (Financial Management) was dictated by the requirements of Public Law 216. The only other direct relationship specified between a civilian assistant and the General Staff is that of the Assistant Secretary of the Army, (Logistics) and the Deputy Chief of Staff for Logistics. The Deputy Chief of Staff for Logistics is under the "functional supervision" of The Assistant Secretary of the Army (Logistics), but he is under the direct supervision and control of the Chief of Staff.

Thus direction and supervision of the Army in all its aspects emanates from the General Staff. In effect the civilian

¹³Army Regulation No. 10-5 "Organization and Functions, Department of the Army."

hierarchy has been superimposed on the military staff and takes effect through the medium of this group.

The Navy Organization

To distinguish it from the Army, the Navy is said to have a "horizontal" organization as opposed to the "vertical" hierarchy of the Army. Below the level of the Secretary of the Navy, control in the Navy is divided horizontally among the Chief of Naval Operations (CNO), the Under Secretary of the Navy and the Commandant of the Marine Corps.

To facilitate understanding of the Navy organization, control will be discussed in the light of the four principal tasks, evolved in the division of authority in the Navy. These tasks are: (1) policy control, (2) naval command, (3) logistic administration and control, and, (4) business administration.¹⁴

1. The task of policy control is the interpretation, application and upholding of national policies as they apply to the development and use of the Navy. Since he has the responsibility for the results and efforts of the entire Navy Department, the Secretary of the Navy has retained policy control as his prime interest. In the formulation and administration of policy he draws on the advice and assistance of his chief executive assistants.

2. Responsibility for naval command has been assigned to the Chief of Naval Operations except in areas in which the

¹⁴"How the Department of the Navy is Organized," Armed Forces Management, November 1957, p. 76.

task of command is reserved to the Commandant of the Marine Corps. The Commandant of the Marine Corps is responsible to the Chief of Naval Operations for the readiness and performance of Marine Corps elements assigned to the operating elements of the Navy. Such Marine elements assigned are under command of the Chief of Naval Operations. In executing the command task, the Chief of Naval Operations is responsible to the Secretary for the command administration and use of the Operating Forces of the Navy. The Chief of Naval Operations is the Naval Command Assistant, while the Commandant of the Marine Corps is titled the Marine Corps Command Assistant.

3. The task of logistic administration and control is that of coordinating and directing the efforts of the Navy Department and the Shore Establishment in order to assure the development, procurement, production and distribution of material, facilities and personnel to the Operating Forces. Responsibility for logistic administration and control has been divided between the Chief of Naval Operations, the Commandant of the Marine Corps and the civilian assistants.

The Chief of Naval Operations has been charged with the responsibility for: (1) planning, forecasting and determining the requirements of the Operating Forces for material, facilities, and personnel; (2) coordinating the efforts of the bureaus and offices of the Navy Department as necessary to effectuate availability and distribution of these requirements; (3) issuing statements of requirements to the bureaus and offices and reviewing and analyzing progress in fulfilling

these requirements; (4) collaborating with the civilian assistants in fulfilling requirements of the Operating Forces and in evaluating and strengthening the procedures governing the determination of requirements; and (5) coordinating and integrating the requirements of the Operating Forces, the Marine Corps and the bureaus and offices of the Navy Department into total requirements of the Department.

With the exception of step (5) above the Commandant of the Marine Corps is responsible for Marine Corps logistics to an extent similar to that of the Chief of Naval Operations for Operating Force logistics.

The civilian executive assistants under the Under Secretary of the Navy are responsible for the remaining facets of logistic administration and control. The bureaus and offices of the Navy Department, and through them the Shore Establishment, are under the direct control of the civilian assistants. The control of these executives is most apparent in procurement, production and financing of logistic requirements. As an oversimplification but as an aid to understanding, naval logistics may be divided into two segments: (1) consumer logistics under the aegis of the Chief of Naval Operations; and (2) producer logistics presided over by the Under Secretary of the Navy.

4. The task of business administration is that of business management to attain economy and efficiency with particular regard to matters of organization, staffing, administrative procedures, budgeting and the expenditure of funds.

The civilian executive assistants have responsibility for business administration throughout the Navy Department and the Shore Establishment and collaborate with and assist the Chief of Naval Operations and the Commandant of the Marine Corps in evaluating and improving business administration with respect to other components of the Department of the Navy under their command.

As an example of control of business administration in the Navy, the following citation of the Comptroller's position is submitted:

The Comptroller of the Navy's authority and responsibility in financial matters is exercised primarily through the medium of technical control. The term "technical direction" is one which is peculiar to the Navy and means the specialized or professional guidance and direction exercised by an authority of the Naval Establishment in technical matters. . . . Instructions and directives are issued through established organizational or command lines. This is in accordance with accepted differentiation in the Navy between technical control and command or management control.¹⁵

The Navy bureaus and offices are directly responsible for the commitment, obligation and expenditure of funds made available to them through apportionments and allocations. The Comptroller operates by review and control techniques and through established command channels over the decentralized financial operations.

Summary

The discussion in this chapter has brought out the

¹⁵Ibid., p. 26.

strong central control pattern of the Army General Staff system and the decentralized organization for control of the Navy Department. Both are rooted in tradition and historical development. The General Staff, with its single line authority tends toward rigidity of control. Reorganization was necessary in the Army to incorporate the Comptroller and accommodate the comptrollership concept at the headquarters echelon. On the other hand, the Navy Department, with its divisions of functional control, accommodated the comptrollership organization and concept within its existing structure. To the laymen, the Navy organization may appear particularly complex and to defy all the management rules for good organization. Successful administration of the Navy under this division of control has probably been the result of a tacit acceptance of the separation of military command and business management by all echelons, both civilian and military. It would seem that the civilian assistants are much more influential in the administration of the Navy Department than in the Army but the power of the Chief of Naval Operations must not be minimized when compared to the Chief of Staff of the Army. In the area of logistic control and administration, the planning, coordination and integration functions of the CNO cut across all lines of direct control.

In addition to the formal structures of the Departments presented here, there are many formal boards and committees in both services which effect coordination and a cross fertilization of ideas and positions. There is also the immeasurable

effect of the informal day-to-day contacts between individuals of different offices and echelons of control. No brief discussion of a formal organizational structure can cover all the factors contributing to the actual operation of any organization, but the skeletal structures and organizational philosophies have been covered in this chapter.

CHAPTER III

RESEARCH AND DEVELOPMENT, NAVY

Introduction

The title of this chapter is that of a Navy appropriation and has been chosen for discussion because it is an anomaly when considered in the light of the Navy bureau-type appropriation structure. The research and development appropriation is service-wide and programs of all the bureaus in this area are funded through it. There are two other service-wide appropriations, Service-Wide Supply and Finance, Navy, and Service-Wide Operations, Navy, but these present no inconsistency with the normal pattern. The Bureau of Supplies and Accounts is responsible for the service-wide supply and finance appropriation which funds elements which have always been considered within the purview of the Supply Corps. The service-wide operations appropriation funds miscellaneous programs and activities which could not be considered to be of single bureau interest. Many CNO and Secretary of the Navy activities, such as the Hydrographic Office and congressional travel, are funded under this title. The responsibility for this appropriation rests in the Administrative Office of the Secretary.

Research and development then is unique among the endeavors of the Navy Department and, as will be seen, has

been the cause of much realignment of organization and control. Indeed, the period of adjustment in organization has even yet not run its course.

Development of the Budget

During World War II the scientific resources of the country were mobilized through the Office of Scientific Research and Development (OSRD) under the direction of Dr. Vannevar Bush. It was through this Office that the civilian scientists presented their ideas to the military and the military presented their problems to the scientists. Through the impetus of war the closest of coordination was achieved, with the Manhattan Project, the proximity fuse and other new weapons standing as objective evidence. At the end of the war many feared that to the detriment of the nation, this coordination would be lost. These persons also felt that the military, left to pursue their immediate problems of application, would forget basic research since it has no particular military end product in mind. Dr. Bush was an able spokesman for this group before Congress, through the press and in his many writings.¹⁶ The result was that research captured the imagination of the public, Congress and elements in the Executive Branch and there was a determination to see that research was given its rightful place in the military and its appropriate share of military funds.

In keeping with the atmosphere of the times the

¹⁶Vannevar Bush, "Military Organization for the United States" (Washington 1946), p. 4.

Secretaries of War and Navy chartered the Joint Research and Development Board (JRDB) on June 6, 1946. This group was to coordinate the research effort of the Army and Navy and succeeded the wartime OSRD. Dr. Bush was appointed first chairman of the Board. What coordination was effected was by consent since the Board held no real line authority. Of more interest to the Navy was the legislation creating the Office of Naval Research (ONR) by Congress in this same year.¹⁷ The Office of Naval Research, headed by the Chief of Naval Research who was given equal status with the bureau chiefs, was established to encourage scientific research in augmentation of the programs engaged in by the various bureaus and to coordinate the Navy research effort. Congress further provided in this Act for the appropriation funding of ONR and thus the first separate research appropriation and supporting budget was developed in the Navy. The other bureaus, however, continued funding their research through their many appropriation titles.

The next major step in the centralization of control over research came in 1947 with the enactment of the National Security Act. This act abolished the JRDB and consolidated its personnel into a new Research and Development Board (RDB) which was a part of the National Military Establishment. Although this Board was again chiefly limited to coordination

¹⁷79th Congress, 2nd Session, PL 588, 1946.

and was to "advise" the Secretary of Defense, Congress also provided that it would prepare an integrated program of research and development for the military.¹⁸ There was considerable discussion in the Navy at the time as to just what form this integrated program would take. The area of discussion resolved into three possibilities:

- (1) A single research and development budget and appropriation for the NME,
- (2) a single appropriation for each department within an overall NME budget, or
- (3) limitations placed on research and development items in each appropriation in accordance with an overall NME budget.

Of course, any of these approaches would limit the freedom and autonomy of each military department in the R & D area. The generally accepted Navy position was that a single budget would not be appropriate inasmuch as R & D within the military services and their component organizations was so closely allied with the operating function that the funds should be maintained in the budgets as then constituted. It was argued that the military services have ultimate responsibility in their respective military fields for the defense of the nation and its policies and to meet these responsibilities must have the

¹⁸ 80th Congress, 1st Session, PL 253, 1947.
"National Security Act of 1947."

initiative for planning all their operations. Setting a fixed amount for any program, such as research and development, would produce a lack of balance in the total service program. The absorption of budget cuts from whatever source should be the responsibility of the services since the overall responsibility for readiness is theirs.

The new Air Force initiated its appropriation structure with a single service-wide research and development budget and appropriation, but the Navy, having successfully defended its position, continued with its existing appropriation structure.

The RDB encountered considerable difficulty in comparing separate services costs for research and development items and determining just what constituted the total effort in this area. Programs and funds moved in and out of the research area. This was not only true of Navy multiple appropriations but items could be shifted among appropriations within a military department by a change in definition during budget formulation. This problem is extant today, particularly as to when an item moves from research and development to procurement. The RDB set forth definitions, arranged categories and specified formats to enable them to view the research and development effort through reports submitted by the services. Thus, it became necessary for the services to segregate the R & D items from other program and budget areas for separate reporting to RDB.

In an attempt to get a better look at research and

development the Congress decreed in both the National Security Act Amendments of 1949 and the Department of Defense Appropriation Act for fiscal 1950 that no funds were to be obligated by any department or agency of the Department of Defense for research and development except in accordance with regulations prescribed by the Secretary of Defense. To meet the requirements of these laws the Secretary of Defense began the issuance of a "Schedule of Programmed Obligations" which set forth target figures of obligations for budget programs. These figures were not to be exceeded by more than 10% without a reprogramming authorization of this Department. The Research and Development Board recommended these obligation limitations to the Secretary of Defense based on approved military department programs. The Secretary of the Navy also exempted research and development funds from the 5% flexibility privilege allowed in the case of other appropriated funds. This privilege allows the transfer of up to 5% of funds into and out of budget activities (first sub-division of an appropriation) without prior approval of the Secretary.¹⁹ The Navy Director of Budget and Reports further informed the bureau and office chiefs that because of the closer Secretary of Defense control of R & D funds, and because of difficulty in the past in developing consistent data, it had become increasingly apparent that research and development amounts should be specifically

¹⁹ Navy Comptroller's Manual, Vol. 6, Para. 061101.

identified in budget estimation and execution.

Responding to the pressure for identification and scrutiny of research and development funds, and in consonance with the new performance budget concept, the Army shifted to a service-wide research and development budget for fiscal year 1952. At that time the RDB wished to set up a standard reporting format but the Navy objected because the particular proposal would not accommodate the Navy Bureau appropriation structure.

In 1953 the RDB was abolished and its duties and responsibilities transferred directly to the Secretary of Defense.²⁰ The Secretary appointed an Assistant Secretary of Defense (Research and Development) to exercise the functions previously under RDB. (Later the titles and functions of the Assistant Secretary of Defense (R & D), and those of the Assistant Secretary of Defense (Engineering) were merged under a single Assistant Secretary of Defense, Research and Engineering).²¹ These moves continued the advance toward firmer central control and segregation of research and development from other appropriation items.

The next year, 1954, in acting on the fiscal 1955 appropriation act, Congress forced the Navy into a service-wide

²⁰ Reorganization Plan No. 6 of 1953.

²¹ DOD Directive 5121.9 of March 18, 1957, "Responsibilities of the Assistant Secretary of Defense," (Research and Engineering).

appropriation by consolidating all Navy research and development under one appropriation title with the following proviso in the appropriation:

Provided: That the unexpended balances appropriated for research and development under the heads "Naval Personnel, General Expenses", "Marine Corps, Troops and Facilities", "Aircraft and Facilities", "Ships and Facilities", "Ordnance and Facilities", "Medical Care", "Civil Engineering", "Service Wide Supply and Finance, Navy" for the fiscal years 1953 and 1954 and the unexpended balance of appropriations under the head "Research" are hereby transferred to and merged with this appropriation, in such amounts as may be recommended by the Secretary of Defense and approved by the Director of the Bureau of the Budget. . . .²²

The reason for this action was to facilitate uniformity and comparability among the services. In the words of the Senate Appropriations Committee, " . . . If the Navy is to carry out its program in a manner similar to that planned for the other services . . ." is expressed in the meaning of this action.²³ Thus it was the Congress which took the final action and breached the Navy's tradition of decentralized bureau budget responsibility.

Administration of the Budget

The problem facing the Navy Department was that of controlling the budgeting and funding associated with a new appropriation which did not specifically belong in any one

²²83rd Congress, 2nd Session PL 458 entitled: "Department of Defense Appropriation Act, 1955."

²³Senate Committee on Appropriations report No. 1582 of June 11, 1954.

bureau. Because of prior pressures, research and development had been organizationally segregated in the bureaus and was funded under an activity heading in their various appropriations so these activities would form a base for the new appropriation, but they had to be brought together in a central office. Placing such responsibility with CNO would disrupt the Navy pattern of separation of military command, and business administration; nor was the Assistant Secretary of the Navy for Air, traditionally charged with Navy R & D matters, staffed to handle this task. Since ONR's 1946 charter called for coordination of research, this agency was the logical center for the service wide budget.

In June 1954 the Secretary of the Navy assigned to the Chief of Naval Research the additional responsibility of coordinating the development phase of applied Research and Development. For the first time a central point was established for the technical coordination of the many development programs carried on by the bureaus. It also meant that the coordination of research and development was to be formalized and intensified. The overall coordination responsibility is carried but in ONR through a Director of Research Coordination and a development coordinator.²⁴

ONR was designated as "responsible bureau" for the research and development appropriation and was to administer the appropriation in accordance with uniform program structure and standard budget and expense accounting classifications set by the Secretary of Defense.²⁵

²⁴Rear Adm. Rawson Bennett, "How Navy Research Will Operate," Armed Forces Management, Jan. 1958.

²⁵NAVCOMP Inst. 7000.9A of June 18, 1955. "Appropriation, Research and Development, Navy, Administration of."

Note that the term "technical coordination" is used in the above quotation concerning ONR's position. This implies something less than complete control or authority. The ONR position is further clarified in another statement by Admiral Bennett:

In its coordination of research ONR's basic policy has always been to avoid the establishment of rigid, formal machinery for coordinating and planning. Its purpose is, rather, to provide the means for inter-bureau and inter-laboratory groups to get together. It moves into technical areas that appear critical to the Navy, and into warfare areas where the work appears to require integration.²⁶

In funding the R & D appropriation, the restriction of the 5% flexibility provision mentioned earlier still applies. The Secretary of the Navy allocates R & D funds to the bureaus via ONR on an activity basis. Although NAVCOMPT Instruction 7000.9A provide that reimbursement residue over anticipated requirements would be subject to apportionment and allocation on a basis of need, regardless of activity generating the reimbursement collection, little attempt has been made to move funds from one budget activity to another. The bureau budget activities have become about as sacrosanct as the independent bureau appropriations.

It is in the area of planning the logistic requirements, as set forth in Chapter II, that the Chief of Naval Operations enters the research and development field. Since

²⁶Rear Adm. Rawson Bennett, "Office of Naval Research," Armed Forces Management, November 1957, p. 37.

a budget is a plan of operations expressed in financial terms the CNO has very definite budgetary interests in programming and guiding R & D expenditures. This paper is principally concerned with budgeting, but since planning and budgeting are intimately linked a brief word concerning planning is in order.

Briefly, planning and budgeting follow the same general channels, and with the exception of certain specifically financial functions, the same individuals of the various agencies are involved in both processes. The problems that beset the budgetary process are also applicable to the planning process. Planning is usually thought of in its long range aspects; however, it not only precedes budgeting but runs concurrently with it. Plans must be adjusted to come within the budget figures as they are evolved. Budgeted funds must be shifted to meet new situations produced by planning. The whole is a continuing process, indivisible with no clear beginning or end. The total process produces two documents applicable to a fiscal year for R & D: First, the Navy Research and Development Program which eventually goes to the Assistant Secretary of Defense (R & D) and forms the basis for the Schedule of Programmed Obligations, and second, the Navy Research and Development Budget which goes to the Assistant Secretary of Defense (Comptroller) for incorporation with other Department of Defense budgets.²⁷ It is not meant to be implied here that

²⁷SECNAV Inst. 3910.1A of April 19, 1957, "Research and Development Planning and Management Procedures."

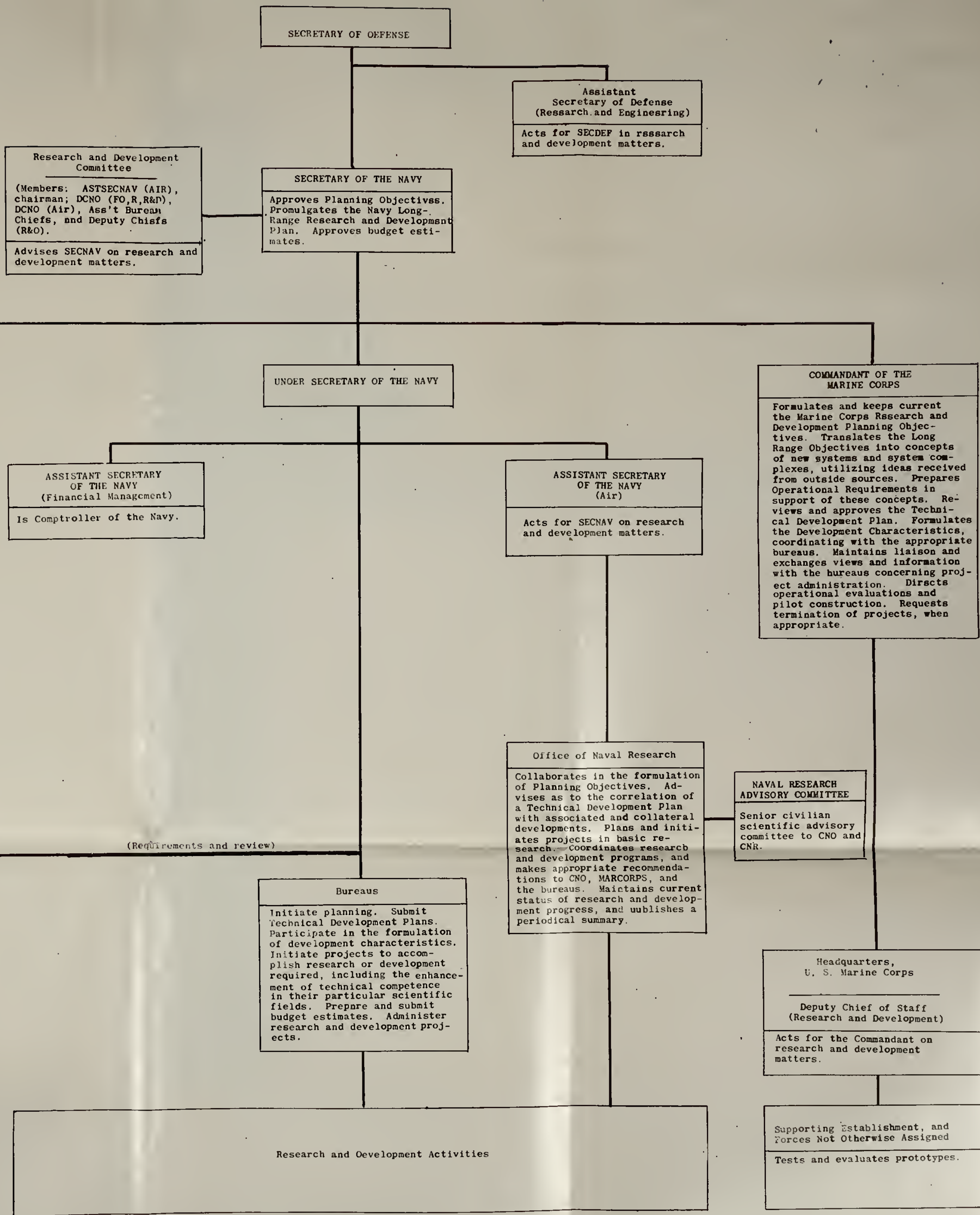
there are no deadline dates or divisions in processing these documents, but the reader is advised to view the dynamicism of the processes rather than to try to segregate various steps. Because of this dynamicism and the time differentials in flow patterns the two documents seldom agree in their final form. Figure III-(Lines of Authority and Administration in the Navy's Research and Development Program) and Figure III-2 (Flow chart of Research and Development Functions) give a simplified picture of the overall R & D process.

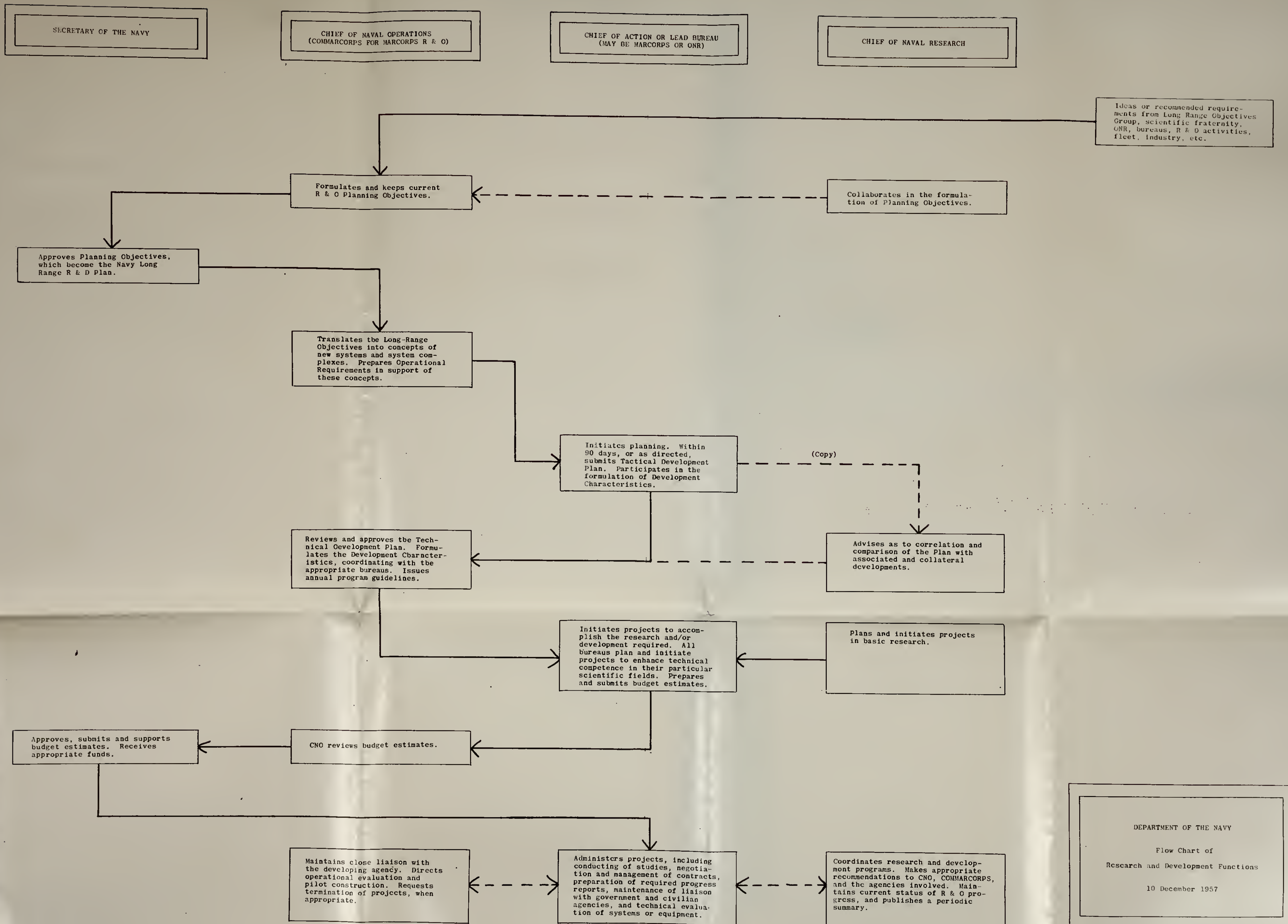
The CNO budget responsibilities rest in a review of the program transmitted from ONR. This program should reflect the overall planning and program objectives expressed by CNO at earlier dates. The chief medium for CNO review is the Navy Research and Development Review Board (NRDRB) whose membership is comprised of the heads of the various warfare divisions of CNO, the Chief of Naval Research and a representative of the Commandant of the Marine Corps. CNO's major problem with this board has been to bring objectivity to the Navy R & D program and budget. The program and supporting budget as received by CNO and the Navy Comptroller represent the parochial approach of the bureaus and do not always reflect the paramount interest of the Navy as a whole.

Among steps recently taken to integrate Navy R & D have been the "Weapons systems concept" and the "Lead Bureau Concept" inaugurated in the past two years. Under the Lead Bureau Concept approved by the Secretary of the Navy in

DEPARTMENT OF THE NAVY
Lines of Authority and Administration
in the
Navy's Research and Development Program
10 December 1957

Figure III-1





August 1957, one bureau is assigned full technical and budgetary responsibility for a weapons or support system. This bureau in turn contracts with the other bureaus for their contribution toward the particular program. The Lead Bureau Concept evolved in implementation of the weapons system planning to be carried out by CNO. A 1956 discussion of the Weapons System Concept had the following indictment of Navy wide R & D planning:

It is essential to the formulation of sound long range goals that there be an agency within OPNAV capable of conceiving, in general physical terms new and improved weapons systems and weapons system complexes by which these goals may be realized. This group should approach the problems from the viewpoint of the entire field of naval warfare rather than from the restricted viewpoint of the present warfare desks.²⁸

Thus the warfare divisions of OPNAV are accused of bringing a myopic viewpoint to the NRDRB. Certain of the warfare divisions have interests that closely parallel the interests of a particular bureau and hence bring that bureau's viewpoint to the fore in NRDRB meetings. Questions are then resolved in this group by vote.

A continuing stream of minor shifts in internal organization and division of responsibility within OPNAV has taken place in recent years in an effort to attain objectivity and strengthen CNO's position in integrating and coordinating the research and development program. For example, the chairman of the NRDRB in 1952 was the Assistant Chief of Naval

²⁸OPNAV Notice 3300 of July 6, 1956, "Weapons System Concept--Basis of Future Navy Development."

Operations for Readiness who was under the Deputy Chief of Naval Operations for Fleet Operations and Readiness. Somewhat later the title of the latter officer was changed by the addition of "and Research and Development" and he took the chair; in the last year the chairmanship has been vested with the new Assistant Chief of Naval Operations for Research and Development.

The creation of the position of ACNO for R & D represents a new concentration of research and development responsibility closer to the CNO. The ACNO (R & D) is directly answerable to CNO on research and development matters. Although this officer and his staff are currently operating without an approved charter, they are gradually taking over from the warfare divisions certain R & D functions, particularly of a systems nature. Perhaps with a centralization of R & D matters in this new office, which is not encumbered with other matters as are the other offices and divisions of OPNAV, a more objective view of R & D will be realized. This should result in greater integration and coordination of the Navy research and development program.

With the institution of these latest changes in OPNAV it is planned that the annual research and development program and budget flow will be about as follows:

1. The developing agencies, in response to the annual program objectives promulgated by CNO, will prepare their budgets for submission to ONR in the format prescribed by the CNR. The budgets will be consolidated and summarized by ONR.

2. On a date prescribed by CNO, prior to submission of the total budget to the Navy Comptroller, the consolidated project listing (Program) will be forwarded to the ACNO (R & D).

3. Upon receipt of the program, the ACNO (R & D) will distribute it to all OPNAV divisions for review and comment.

4. Upon receipt of comments the ACNO (R & D) will prepare a coordinated program which will include:

a. projects in support of systems and equipment required by CNO and the Commandant of the Marine Corps, listed in order of priority;

b. projects required to support basic research, supporting research and technical tests and evaluation;

d. recommended distribution of funds based on assignment of projects to responsible developing agencies and compiled to permit adjustments to varying funding levels as the budget is evolved.

5. The correlated program will be submitted to the NRDRB for review and development of a recommended program.

6. The resulting annual Department of the Navy R & D program will then be submitted to the Navy Comptroller in time to conform with his call for the budget estimates (about 2 July annually). Copies of the program will be sent to the developing bureaus.

7. Review and mark-up of the budget, submitted in response to the call for the estimates, by the Navy Comptroller would then be based on the approved program and necessary adjustments made accordingly.

8. Upon approval by CNO the R & D budget will be forwarded with the total Navy budget to the Secretary of the Navy for his review, action and transmittal to the Secretary of Defense.

9. Further recommendations for significant changes in the approved R & D programs will be coordinated by the ACNO (R & D).²⁹

If the above procedures and timing can be accomplished there will certainly be better integration of the R & D effort, particularly in the relation of programming to budgeting. However, the bureau pressures and the various pressures within OPNAV are still extant. Coordinating these diverse interests will require a strong hand on the part of the ACNO (R & D) and the closest attention of the Chief of Naval Operations.

In this discussion of the administration of the service-wide R & D budget and appropriation, an attempt has been made to show the struggle to give central direction and control to the Navy R & D effort. To date there has been no agency or office in the Navy Department with sufficient authority or singleness of purpose to control and direct the total research and development effort. The creation of the office of ACNO (R & D) is the latest step to bring the service-wide objective view to bear in this area. If this step is not

²⁹OPNAV Inst. 3900.--(to be issued)
 "Planning and Control Procedures for the Navy Research and Development Program."

satisfactory perhaps R & D will be raised to the DCNO level in OPNAV. However, unlike the complete supervision of R & D exercised by the Chief of Research in the Army, this officer in CNO would not exercise direct control over funding under present Navy organization concepts.

Coordination and integration of the R & D budget for the most part takes place within the agencies and procedures discussed. The Navy Comptroller is concerned chiefly with the financial technicalities and justification of projects in the light of economy and efficiency. The CNO Advisory Board and the Research and Development Committee of the Secretary of the Navy (Air) sometimes act in an appeals capacity or settle questions which remain unresolved just prior to transmittal of the Navy budget to DOD.

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CHAPTER IV

TOWARD A SERVICE-WIDE OPERATIONS AND MAINTENANCE BUDGET

In Chapter III the successive steps leading toward the service-wide appropriation, Research and Development, Navy, were traced. It was inevitable that matters in this dynamic field should be the first to come to the fore in the drive toward uniformity in the financing structure of the military departments. The changes wrought have brought the research and development budgets and appropriations of the three military departments into virtually the same pattern and format throughout. "This overall trend of closer coordination and liaison has helped the Department of Defense in administering the research and development programs of all three services. It has also helped us to achieve interservice coordination in general and effective unification."³⁰

However this same trend has caused the Navy the many problems of control noted, because of its organizational philosophy and its traditional and legislated organization structure. The problems become even more acute when extended to other

³⁰ Rear Adm. Rawson Bennett, "How Navy Research and Development Will Operate." Armed Forces Management, January 1958.

than research and development areas.

The Department of Defense and the Bureau of the Budget in their joint review consider budgetary matters under eight headings (Budget Categories):

Military Personnel

Operations and Maintenance

Major Procurement and Production

Military Public Works

Reserve Components

Research and Development

DOD Establishment-wide

Working Capital Funds.

The budgets of the military departments are recast for review to conform to this structure. Although no department appropriation structure follows these DOD categories completely, the Army and Air Force structures are close to conformity while the Navy structure is considerably at variance. Navy conformance is limited to Research and Development and Working Capital Funds. The latter, once established, are not subject to continuing appropriation action. Thus, being rather fixed in nature and governed by the specifics of a charter in each instance, they have caused the Navy little administrative trouble.

Hardly had the Navy been brought to the single R & D appropriation when there was introduced the next action toward bringing the Navy into conformity with DOD concepts. Under date of November 27, 1954, in a staff analysis on the 1956

budget estimates of the Navy, the joint Secretary of Defense and Bureau of the Budget staff recommended a major change in the Navy budget structure. The recommendation provided for the consolidation of separate maintenance and operations appropriations as follows:

Current Navy Appropriation:

Proposed:

Navy Personnel, General Expenses
Aircraft and Facilities
Ships and Facilities
Medical Care
Civil Engineering
Service-Wide Supply and Finance
Service-Wide Operations

Maintenance and
Operations, Navy.

The old appropriations were to become activities under the new appropriation. Under this alignment the bureaus would lose not only nominal control of parts of an appropriation, as was the case with R & D, but responsibility for a complete appropriation. The new activity titles could only be considered as interim since they would not accomplish the purpose of uniformity and comparability and were not in conformity with the DOD O & M structure. It was therefore agreed between the Assistant Secretary of Defense (Comptroller) and Assistant Secretary of the Navy (Financial Management) that pursuit of this proposal would be postponed. However, it was agreed to present to Congress a new general procurement appropriation proposal, comprised of items winnowed from the O & M areas. The Navy Sub-Committee of the House Appropriations Committee disagreed with the proposed structure so the Department of Defense Appropriation Act for fiscal year 1956 restored the

original Navy appropriation structure.

The Bureau of the Budget and DOD continued to press for a single O&M budget and appropriation. After much discussion between authorities of these agencies and the Navy it was proposed that: (a) the Navy retain its individual O&M appropriations; and (b) that the internal structures of these appropriations be changed to conform to the DOD structure for O&M appropriations. To meet the provisions of this proposal, the Navy Comptroller issued an instruction (in November 1957) which called for a submission of dummy fiscal 1959 budgets under the new structure for the following appropriations:

Navy, Personnel, General Expenses

Marine Corps Troops and Facilities

Aircraft and Facilities, Navy

Ships and Facilities, Navy

Ordnance and Facilities, Navy

Medical Care, Navy

Civil Engineering, Navy

Service-Wide Supply and Finance, Navy.

The dummy appropriation structures were then to be cleared with DOD and BuBud authorities and later presented to the Military Appropriations Subcommittee of the House Appropriations Committee for approval at special hearings for this purpose. The required new structure was limited to the appropriation activity level, calling for the following activity titles:

Combat Forces, Training Activities, Central Supply Activities, Major Overhaul and Maintenance of Material, Medical Activities, Reserve Training, Department-wide Activities, Special Materiel Support and Joint Projects. The job of the bureaus was to merge about 54 old activity titles and the project thereunder into the nine new activities. The bureaus and offices were enjoined to give careful consideration to their organizational structure in the process.

The overall budget structure (appropriations) of the Navy has been developed on organizational lines in accordance with the performance budget concept. The Navy bureaus and offices and the Marine Corps each administer and are responsible for appropriations which support missions and programs within their normal fields of endeavor except for minor deviations. Improved financial management and self interest require that this alignment be duplicated in the internal bureau organizations. Fund administration should be lodged in that organizational component which directs the mission or program performed. This does not infer that internal budget structures will dictate organizational structure, but, rather that proper organizational structure will include the element of budget execution; that, just as a bureau chief has been delegated the responsibility for the performance of overall missions or functions which is reinforced with responsibility for administration and control of appropriation support, the division and delegation of these mission and program responsibilities should be accompanied by division and delegation of responsibility for budget execution. The opportunity available under this instruction to concurrently improve and align organizational and budget structures should receive careful study by action addressees.³¹

The submissions of the bureaus and offices in response to the Navy Comptroller's instruction proved to be not entirely satisfactory to the representatives of BuBud and DOD. Consequently the Navy Comptroller called for a resubmission of the

³¹ NAVCOMP Inst. 7110.21 of Nov. 22, 1957, "Revision of Navy Operation and Maintenance Appropriation Structures."

fiscal 1959 budget after bureau personnel had consulted with Navy Comptroller budget analysts who were aware of the areas of difference and could aid in placing the resubmittals in acceptable form.³²

In the meantime a proposed directive of the DOD concerning financial management in the area of appropriations for operations and maintenance was issued for service comment on February 6, 1958, certain features of which were in contradiction of past agreements. To these the Navy took exception. In view of the apparent impasse, it was agreed that implementation of a revised structure for Department of the Navy O & M appropriations should await the issuance of the proposed DOD Directive and that this would preclude submission of the fiscal 1960 budget in a revised format.

The draft directive stated as DOD policy: "There should be only one operation and maintenance appropriation for each military department."³³

The Navy Comptroller's reply to this statement was as follows:

The proposal that the Department of the Navy have a single operations and maintenance appropriation has been discussed exhaustively. It is our understanding that the senior echelons in the Bureau of the Budget and the Department of Defense have recognized that

³²NAVCOMPT Notice 7110 of March 7, 1958, "Revision of the Department of the Navy Operation and Maintenance Appropriation Structures."

³³Proposed DOD Directive . . . "Program for Improvement in Financial Management in the Area of Appropriations for Operations and Maintenance" under draft of Feb. 6, 1958.

the Navy's organizational structure requires the continuance of its several O & M appropriations. The statement of policy (above) serves no immediate purpose and will only lend to prolong an argument that can only be solved by a complete reorganization of the Department of the Navy . . . an action which is beyond the purview of the proposed directive.³⁴

This directive also proposed that conformity in the military O & M appropriations be had at what the Navy calls the project level (sub-head under "activity"). If the Navy were to maintain nine O & M appropriations this would mean that the bureaus would have to merge about 270 projects under 81 new headings and these in turn under nine activities. This would pose a tremendous administrative burden on the bureaus.

If the Navy is to be forced into a single O & M budget the major problem will be determination of the administering agency--the Chief of Naval Operations, the Chief of Naval Materiel, or some other agency. In any event a change in Navy organizational philosophy and some new legislation would be required. The office of Naval Research proved a convenient centralization point for R & D matters with legislated authority provided in its charter. It makes interesting conjecture as to what the Navy would have done had ONR not been in existence in 1954. It was only eight years old then. The O & M appropriation situation is vastly more complicated. The activity breakdown does not fit the bureau structure. The funds involved and activities financed are much greater than

³⁴ Comptroller of the Navy letter to the Assistant Secretary of Defense of April 2, 1958.

those for R & D. A further important factor to be considered vis-a-vis a single O & M budget is implementation of Public Law 863 which states:

In order to have a simplified system for administration sub-division of appropriations or funds, each agency shall work toward the objective of financing each operating unit at the highest practical level, from not more than one administrative subdivision for each appropriation or fund affecting such unit.³⁵

Under full and literal interpretation of this provision of law, many activities of the shore establishment and many CNO field activities would be funded directly by the agency responsible for the Service-wide O & M appropriation.

³⁵P. L. 863, op. cit.

CHAPTER V

SUMMARY AND CONCLUSIONS

Economy and Efficiency

In Chapter I was followed the milestones along the road to closer control and supervision in Federal financial management. The actions of the Congress and the Executive were taken in the interest of economy and efficiency. I feel that in so inextricably linking these two words there is a basic fallacy which must be guarded against in appraising the worth of any action taken under this guise. The terms are not synonymous, nor are they always complementary. For example: the greatest measure of efficiency in a fighting force is morale. Since the military pay represents about 25% of the military budget we can affect economy by refusing pay increases. However, it can be presumed that such a measure would have a deleterious effect on military morale. In fact, if pay policies became sufficiently niggardly we would have at best a lowering of the quality of personnel in the Armed Forces and at worst a resort to compulsion to keep personnel on the rolls. About the only meaningful relationship between economy and efficiency is that a unit that is efficient is usually economical in its use of personnel, materiel and funds.

Closer control and supervision has led to centralization of budgeting and funding. More supervision leads to more supervisory levels. The Budget and Accounting Act of 1921 added the Bureau of the Budget and the General Accounting Office. The National Security Act of 1947 added the Office of the Secretary of Defense, which later action expanded both in size and authority. These agencies have been placed between the operating agency and the source of funds in the Congress. The action of top level groups in the budgeting and funding functions is essentially negative. They are far removed from the technicalities of operations so their questions on programs tend to deal with the economy or even necessity of a program rather than its adequacy. They hold a succession of possible vetoes as a program moves to ultimate decision in Congress and the funds move back from Congress to the spending agency. This process has lengthened the path of decision. If the extra review and justification has resulted in economy, and efficiency has been maintained or increased, the delay is defensible.

The major problem is one of determining economy and efficiency in the military. Unlike business with its profit yardstick there is no true measure of overall efficiency in the military. Economy and efficiency can be furthered in various component areas by establishment of standards and the constant application of such tools as work measurement, automation and other measures transplantable from industry--but

this gives no measure of overall efficiency. In the final essence, if there is no war all military expenditures are a waste; if the military wins a war, a certain amount of efficiency is implied; if the nation loses the war the military has been inefficient--or inadequate.

To obtain a more objective view of expenditures Congress, in approving Public Law 216 in 1949, specified a performance budget for the military departments. Congress herein expressed its desire to look at programs--to observe what the military was doing rather than what they were buying. In the military two opposing views arose as to what constituted the appropriation program. The Navy has a program budget based on its bureau structure; the Army and Air Force have a program budget based on their General and Air staff structure. The old object classification did not disappear from the budget as was intended in the performance approach. Some Congressmen insist on maintaining subjectivity in budgetary matters, i. e., which of my constituents are being benefited by these expenditures? So the object classification has been retained in the budget in the form of supporting data.

In voting the performance budget Congress also specified that the budgets and programs of the military were to be set forth in a readily comparable form and follow a uniform pattern. This obviously has not been attained since the Navy has placed a different interpretation on program from that followed by the other two services. Comparability was a supposed virtue of performance budgeting. But comparisons are

only valid if the functions and operations are similar. If all the functions of the three services are the same there is need for only one service. Again, component parts can be compared through accounting and work measurement systems but the situations and actions must be tested to ascertain that they are truly comparable. The Department of Defense and Bureau of the Budget have emphasized the "uniform pattern" words of Congress. These agencies are troubled in their review of the military budgets by the inconsistency of the Navy in not following the pattern of the other services, which is close to that of the DOD budget categories. The argument of these agencies is for a prescribed format which facilitates their review and fits the organizational structure they have erected for this review. This indicates a paper uniformity and the purpose of comparability takes on a rather hollow ring. It borders on uniformity for uniformity's sake.

Another supposed advantage of the performance budget is flexibility. Congress appropriates for a whole program rather than for its component parts. With this lesser degree of specification in appropriations, funds could more readily be moved from one program to another to respond to any shifts in emphasis. However, with the administrative restrictions on funding imposed by the top supervisory levels, the spending agencies gained virtually nothing in the way of flexibility. The greatest degree of flexibility could be given to the Executive Branch by appropriating military funds in one lump sum. Congress would thus abdicate a considerable part of its

control over expenditures and the executive agency administering such funds would be vested with these abdicated powers. Some Congressmen are concerned today that under performance budgeting Congress has already moved too far in giving control to the Executive.

Control

The major theme running through Chapters II, III, and IV is that of control. In Chapter II was considered the separate approaches of the Army and the Navy, in their organizational structures and the control afforded by the two patterns. In the Army the chain of authority is comparatively straight-forward while the Navy prefers to divide control into various facets: military command, management control, technical control and coordination control.

In its report on the organization of the Navy, a committee, under the chairmanship of the then Undersecretary of the Navy Thomas S. Gates, in 1954 came to the following conclusions:

a) The present organization of the Navy is basically sound. Essentially, active civilian control is provided and permits the effective utilization both of military and civilian capabilities.

b) The Committee is in full accord with the principle of Navy organization which provides for such division of responsibilities (division of responsibilities between civilian and military executives) and which requires formal administrative mechanism for coordination at all operating levels.³⁶

³⁶ Report of Committee on Organization of the Department of the Navy, Chairman: Thomas S. Gates, dated April 16, 1954.

The principles singled out above are civilian control, division of responsibilities and the formal coordination required in the operation of the Navy system.

I am not convinced that the civilian secretaries in the Navy enjoy more control authority than those in the Army. The Secretary of the Army can guide Army policy as well as the Secretary of the Navy guides Navy policy. The civilian Assistant Secretaries in the Navy are integrated in the organization while those in the Army are superimposed on the organizational structure but in reality both groups are on the policy level. Both depend heavily on the advice of their military and civil service assistants in arriving at policy decisions. With the comparatively short tenures of these Assistants they could hardly do otherwise. For the same reason it is unlikely that the Navy Assistant Secretaries delve into day-to-day operations any more than do those of the Army. Whether the Navy gives more attention to a pronouncement of the Assistant Secretary for Financial Management than does the Army to his counterparts in that organization is a moot point. Defense of the Navy organization on the grounds that it gives more civilian control seems to be more fetish than fact.

Division of responsibility (or control) has resulted in the formal mechanisms for coordination mentioned in the quotation above. To coin another control term, "decision control" in the Navy seems to reside, for the most part, in the welter

of committees and boards created for the coordination purpose. We have seen the important position of the Navy Research and Development Review Board in research matters. However, the problem of committee decision was also here demonstrated. Parochial representations, present on committees of this nature, lead to compromise decisions or to such delay in decision that the overall program is not brought into focus in time to guide the realities of execution. The Chief of Naval Operations, as noted, has taken steps to bring stronger central direction to the research and development area. This problem of top level direction has not been acute in the Navy so long as direct responsibility and authority over appropriations rested with each bureau. However, a single appropriation cutting across bureau lines carries with it the legal authority to transfer funds between functions. The enforcing of this provision requires a single line of responsibility to be sound from a management standpoint.

The Navy has long faced the problem of strong advocates for the various aspects of its total organization. In effect the Navy is a miniature Department of Defense, with responsibilities on land, sea, underseas and in the air. To accommodate these interests the Navy adopted a form of decentralization which might be termed a loose confederation. Control and coordination were broken down, finely defined, and parceled out to fit this pattern. This system, through mutual consent of the agencies involved, had worked well to date but is it

capable of further adjustment in the face of increasing centralization of control demanded by the budgeting and funding patterns of higher authority.

The Future

Before the nation and the Congress today are two further measures affecting the progression of change in budgeting and organization in the military.

The first of these is a bill, H. R. 8002, which has passed both Houses of Congress in different form and is awaiting further committee action in the Senate. This measure would require budgeting in the Federal Government on an annual accrued expenditure basis as opposed to the obligation method now in use. Agencies would have to project for 18 months and more ahead the goods and services to be received in a fiscal year, advance payments, progress payments and such other payments as are authorized by law to be made in such fiscal year.³⁷ The object of this proposed legislation, which is the result of a recommendation of the report of the Second Hoover Commission in 1955, is to enable Congress to control and limit the large carry-overs of unexpended balances of appropriations. The review of these balances is already the prerogative of Congress but this bill would require that Congress look at every program each year. Some sort of contract or obligational authority would still have to be granted to cover long lead-

³⁷ 85th Congress, 2nd Session, H. R. 8002.

time capital item. (A carrier cannot be bought, completed, and paid for in one fiscal year.)

Attempting to predict delivery and payment schedules so far in advance would place an untold administrative and accounting burden on Federal agencies to say nothing of contractors doing business with the Government. Even if this concept were workable, which at present seems doubtful, the return would not be commensurate with the effort required. As noted, Federal agencies and private enterprise doing government business would have to add considerably to their accounting organizations to supply even a modicum of the accurate forecasting of expenditures required. Congress would have to undertake the heavy burden of hearing, debating and appropriating for every program each year and would still have to commit the Government to expenditures for capital items in future years. The measure would promote inflexibility, in that funds appropriated for a particular forecast might not readily accommodate a shift in emphasis forced by new developments. The Executive could only resort to broader programs and fewer appropriation titles to the extent Congress would approve. This would lead to further centralization of Executive fund control.

Closer control always adds supervision and accounting. Both of these are expensive items. No figures exist as to what percentage of Federal expenditures are the result of administrative costs but this figure would likely loom quite large.

The danger point exists when the return of control measures is not commensurate with the expense. Perhaps the Federal Government has already reached this point. Going beyond is accounting for accounting's sake. Therefore, a careful watch and review needs to be taken in this respect.

The second measure extant is the President's plan for reorganization of the Department of Defense.³⁸ The provisions of this plan call for further centralization of authority in the Secretary of Defense. Two of these provisions are of especial interest to the relationship of budgeting and organization.

Chapter II brought out the traditional and legislated position of the Chief of Naval Operations as the Naval Command Assistant to the Secretary of the Navy. The President ^{pro}poses to place major command authority with the Secretary of Defense. The military departments would concentrate on primary functions of managing the vast administrative, training and logistics functions of the Department of Defense. Since the Chief of Naval Operations would be left very little command authority, would he be given business management duties which the Navy has considered the preserve of the civilian secretaries?

The President proposes that the Secretary of Defense be given greater flexibility and directive authority over expenditures. The dynamic research and development area is

³⁸ President's Message: Recommendations Relative to Our Entire Defense Establishment, April 3, 1958.

specifically singled out. Here the President calls for the Secretary of Defense's authority over organization funds to be made complete and unchallengeable. The President has directed that within the existing legislated structure, that the Department of Defense budget estimates for 1960 fiscal year be prepared and presented in a form to accomplish these ends. The details of this direction have not as yet been spelled out to the military departments but it is reasonable to suspect that the Navy will be forced to conform to the DOD category structure for military appropriations. If this be the case the Navy organizational and responsibility concepts will be subject to extreme pressures. In view of these latest pressures, and the apparent inevitability of increasing centralization as demonstrated in the steady progression of legislative and administrative action in this century, perhaps the Navy should take a long look at its position and decide the really important issues on which it wishes to hold the line. An inflexible stand on organization does not appear to strike at the heart of the matter.

The central point is: where does the point of authority become too remote from the responsibility for the operation? This is especially important when that authority extends to the shifting of funds. Can anyone unfamiliar with the technicalities of sea power determine what is necessary to the control of the seas or where emphasis should be placed to effect this control. If authority is centered beyond the level of

competent judgment in decision, the division of funds might be arbitrary and impractical--based on the caprice of the moment. As with all facets of our national life, balance must be maintained in defense funding.

Decision authority should be balanced with technical competence and operational responsibility at each succeeding step in the funding process. Flexibility in fund control must accompany the power of decision, otherwise this power is meaningless.

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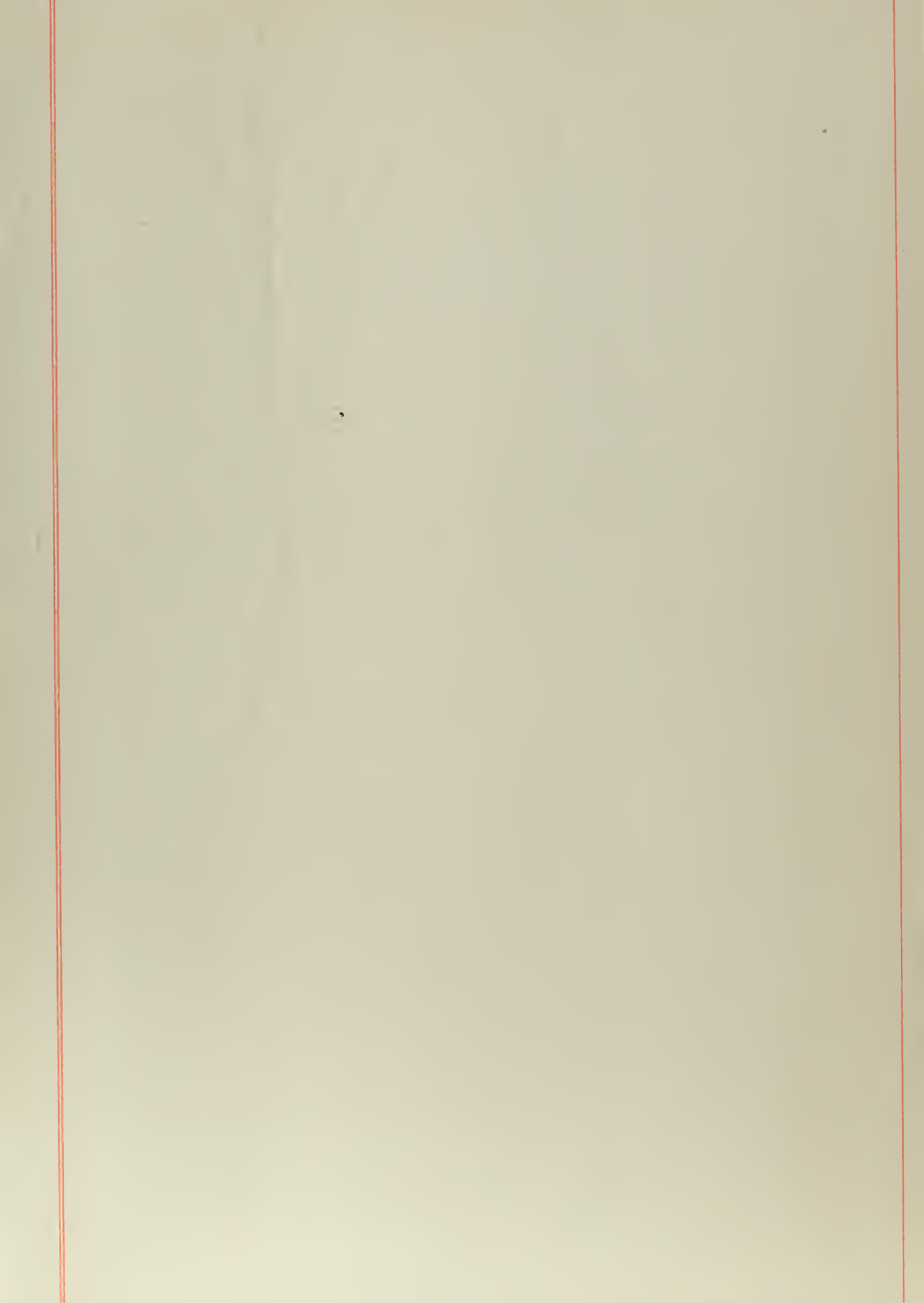
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